

# ANALYSIS OF UK-EU TRADE BALANCE

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## **ABSTRACT**

*The fact that the United Kingdom officially withdraws from the European Union on 27 March 2019 will significantly transform bilateral trade relations. Through the – till now – ‘fruitful’ cooperation, both sides were able to take advantages and thus have achieved substantial economic benefits, economic and welfare growth. It seems that the UK has been more in need of its trade, so it is becoming increasingly important on what conditions the new cooperation will operate. The possible versions are well known, the conditions are not yet. It is only visible how the evolution of the bilateral trade balance has evolved. The aim of the report is to present the specificities that emerge from the trade processes and to make findings about future cooperation.*

## **KEY WORDS**

*European Union, United Kingdom, Brexit, trade balance*

**JEL classification:** *Q17, F13.*

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## **INTRODUCTION**

In the first point I need to present my own opinion the point that the United Kingdom (UK) will leave (Brexit) the European Union (EU) seems to be a tragedy<sup>3</sup>. For all the parties will result be resulted disadvantages and negative consequences: the EU losing one of its most important Member States and will be weakened fundamentally the UK will lose the contact to the EU’s single market and will be far from the advantages of the unions results and benefits. Still now it is highly reflected what will happen after the Brexit, and how is it possible to manage the consequences. In many cases happened to analyse the consequences and we can collect in various aspect – including but not limited to – IMF 2016, UK in a Changing Europe 2016, Brugel 2017, KPMG, 2017 UK Government 2017, 2018. If we are focusing the trade effects PWC 2018, Byrne et al 2018 described disadvantages and future problems. If we only look at the simple effect that although domestic

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<sup>3</sup> On 23 June 2016, the United Kingdom voted in a referendum to leave the EU, the Article 50 of the Treaty of Lisbon was triggered on 29 March 2017 to start the process of UK leaving the EU. As a result of this 29 March 2019, at 23.00 GMT the UK leaves the EU and 31 December 2020 the transition period must finished.

agriculture plays a decisive role in the supply of food, its commercial activity is important. In the case of foods, the United Kingdom can only satisfy 61% of domestic consumption. (House of Lords, 2017)

Belongs the possible options generally there are 4 options to fulfil the exit in frame of the free trade:

- Norway option: Staying in the EU Single Market<sup>4</sup> and leaving the Customs Union<sup>5</sup>.
- Turkey option: Leaving the EU Single Market and EU Customs Union but creating a new customs union with the EU.
- Swiss option: Leaving the Single Market and Customs Union, but negotiating a new bilateral free trade and customs agreement (like Switzerland, Ukraine or Canada)
- World Trade Organization (WTO) option: Leaving the Single Market and Customs Union without a deal and the trading will regulated on WTO terms, without preferential access to the EU market for services. (IMF, 2016, The Institute for Government 2017)

It can be declared that for many countries it is, or until the exit it was important to make an easy trade with UK and it seems to be, that belongs these options it will much more complex and expensive that till now.

The volume of trade between the UK and the EU27 is very significant. And in this situation, the EU27 can show a bigger surplus. EU27 exports to the United Kingdom amounted to EUR 295 billion, while imports amounted to only slightly more than half of EUR 186,1 billion. (EUROSTAT, 2017). The importance of bilateral trade in the United Kingdom is much greater. Bilateral trade accounts for 4% of EU GDP, while 19% of UK equivalent.<sup>6</sup>

It has proved that the EU market is important and important for all Member States. Mayer et al (2018) presented, that the single market has increased trade between EU members by 109% on average for goods and 58% for tradable services. After weighted by the size of the economy they estimated 4.4% for the average European country related the associated welfare gains from EU trade integration. Of course, not all countries have benefited to the same extent however. Welfare gains from trade are significantly larger for small open economies than large EU members. Belongs this analysis can be estimated the effect related UK as well. The single market for the goods

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<sup>4</sup>The EU single market seeks to guarantee the free movement of goods, capital, services, and labour within the European Union. So the EU created one territory without any internal borders or other regulatory obstacles. A Single Market stimulates competition and trade, improves efficiency, raises quality, and helps cut prices which resulted economic growth and easier life of European businesses and consumers.

<sup>5</sup>The Customs Union meaning that no customs duties introduced on goods delivered within the customs union and members of the customs union impose common external tariff on all goods entering the EU.

<sup>6</sup>As a comparison it is interesting, that the total volume of EU-US trade is similar as the EU-UK relationship. In 2017, the EU exported EUR 375.8 billion products to the United States and imported around EUR 256.7 billion, both of which are only about 20% higher than the total trade in the UK. (EUROSTAT, 2017)

resulted in UK a total of 16%, related just the EU 98% is the increase volume. This is less than the EU average level, which is totally 36%, in case for EU members 109%<sup>7</sup>.

This paper is focusing to become more detailed information about the trade effects of the Brexit. So, it is necessary to analyse the trade flow, truth the trade balance between the EU Member States.

### ***MATERIALS AND METHODS***

To present UK trade processes related the EU, it is needed to use the database the European Union Statistical Office, EUROSTAT. Following the harmonized EUROSTAT data, the extent and timing of bilateral trade in goods can be quantified too. Prior to presenting the results, however, it is necessary to record some fundamental conditions:

- For country-by-country data, breakdown by sector and product ranges is based on the SITC (Standard International Trade Classification) and the freight rates available in the harmonized system. To reduce the amount of data it is needed to use just aggregated data, at level of SITC 1 digit. This paper focusing on just goods, analysing the flow of tradable services will be not concern.
- The analysis will be using the aspect from the UK, therefore – if it will be not clearly mentioned – the export will be equal with the export from the UK to the partners and the import will meaning trade flow to UK.
- During the examination of the trade process between the UK and other Member States will not consider the distorting effects of VAT fraud on the internal market or the illegal trade in certain sectors, the fluctuation the exchange rates. During this it will be not selected and corrected the distortion related possible different data of the national statistical offices.
- In certain commodities, it should be accepted by intra and extra EU trade that values in many cases do not indicate that the country of entry or exit and the country of destination are the same. A loading site will be considered on the basis of the statistical register, although it will be further transported to other countries the internal market. This results in the role and significance of some major trading countries becoming unduly overvalued.<sup>8</sup>

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<sup>7</sup> If we are seeing the flow of tradable services, UK was able to use the advantages of the single market much better. The total increase was 36%, the EU related 65%, which are higher than the EU average 29% and 58% (Mayer, 2018)

<sup>8</sup>For Belgium and the Netherlands the statistical values may be inaccurate. Ports in Belgium and in the Netherlands are the most important transit hubs, and through this, the United Kingdom's land-based, Europe-wide and global trade flows. Some of these "Belgian" and "Dutch" exports were originally from the continent or from the rest of the world, and some of the imports from the United Kingdom are not intended for Belgian or Dutch markets. It can be notes that according to data compiled by the Dutch Statistical Office in the Netherlands, transit exports account for 48% of all "European" exports, so almost half of the export of goods to the rest of Europe from the Netherlands is actually reexported. For imports this value is 38%. (Statistics Netherlands, 2016)

As possible methods during analysing trade processes, it is possible to use comparative analysis and the aggregated value of trade balance. The export-import balance that depicts the country's export import difference plastically.

$$B_{E/I} = x_{ij} - m_{ij}$$

Where  $B_{E/I}$  gives the sum of balance,  $x_{ij}$ , is the sum of export value of the given country, and  $m_{ij}$  is the sum of the similar values of import.

### **RESULTS AND DISCUSSION**

If we are analysing a longer period can be see, that by the main group of goods UK is net importer. Both the EU and the non-EU countries can be traced negative trends from 2000-2017 period. The negative trade balance gradually increased over the period. This was even though the trade deficit fell short of the period in the non-EU countries. Especially after the 2010 the EU related trade has been increased progressively.

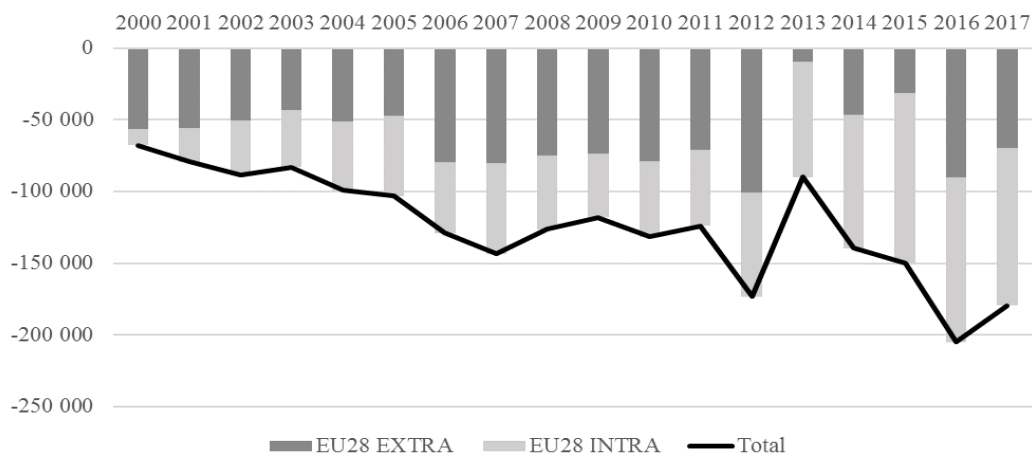


Figure 1. UK trade balances with EU and non-Eu countries from 2000-2017

Source: author's editing based on Eurostat 2018

However, according to Eurostat data by all major SITC product groups, the trade balance is negative too. Which means that the EU's largest trade deficit can be presented in 2017 in value of EUR 174 billion. If we are separating by different groups of categories can be analysed the EU intra and the EU extra results as well. (2. Figure)

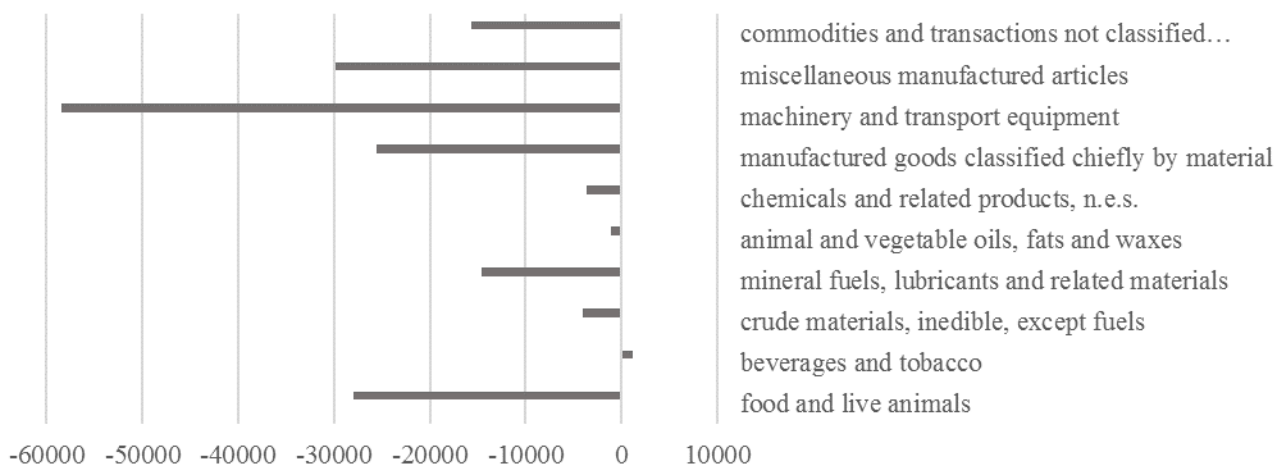


Figure 2. UK trade balances in world trade (SITC categories, 2017)

Source: author's editing based on Eurostat 2018

We can see, that UK is able to present less negative trade balance related the non-EU countries, the total value is -69.7 million euro, instead of value of the Intra EU is -109.7. In case of the EU external partner the group of *beverages and tobacco* (3 400 million euro) and *chemicals and related products* (11 702 million euro), presenting positive balance. In the frame of the EU trade just in the case of the group of *mineral fuels, lubricants and related materials* is the UK export higher than the EU import (the balance is 9 994 million euro).

Table 1. UK intra and extra EU trade balance in different SITC groups (million euro, 2017)

| SITC group  | EU28 EXTRA | EU28 INTRA |
|---|------------|------------|
| food and live animals   | -8 217     | -19 773    |
| beverages and tobacco   | 3 400      | -2 187     |
| crude materials, inedible, except fuels                           | -82        | -4 000     |
| mineral fuels, lubricants and related materials                   | -24 566    | 9 994      |
| animal and vegetable oils, fats and waxes                         | -454       | -627       |
| chemicals and related products, n.e.s.                            | 11 702     | -15 392    |
| manufactured goods classified chiefly by material                 | -11 178    | -14 306    |
| machinery and transport equipment                                 | -5 800     | -52 577    |
| miscellaneous manufactured articles                               | -19 139    | -10 637    |
| commodities and transactions not classified elsewhere in the SITC | -15 377    | -245       |

Source: author's editing based on Eurostat 2018

By the analysis of the trade balances it can be see, that by the trade flow is by Germany is the biggest, 33,6 % of the total trade balance is linked to this country. (Figure 3)

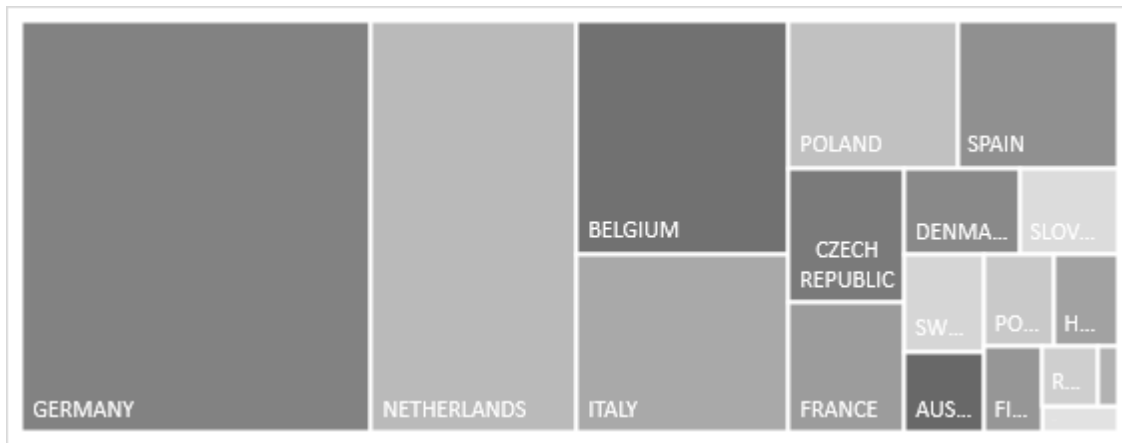


Figure 3. Share of countries in the UK-EU trade balance

Source: author's editing based on Eurostat 2018

After this Netherland (19,7%), Belgium (11,5%), Italy (8,8%) and Poland (5,8%) coming. So, related these countries could be the resulted the most negative consequences the possible change of trade after the Brexit if we are seeing the trade balance. However, in the case of smaller countries shown in the figure 3, it is important to treat the negative impacts due to detachment. In these countries, the change in the English trade surplus may result in mutually beneficial effects on domestic markets and trade with other countries.

### **CONCLUSION**

As a rule, UK has basically taken advantage of the benefits of the EU single market. The country used the opportunities of free trade. This resulted the expansion of domestic supply and more efficient use of resources. As a result – it is presumed and in a general way that – the delivery of raw materials and low value-added products (e.g. food) and the delivery of more advanced products (e.g. drinks, chemicals) were significant. This - indirectly - made it possible to develop advanced tradeable service exports. It was presented that the deficit of the UK trade balance has gradually increased over the presented period, because of the increase in sales in the EU. Therefore, it would be important to negotiate an agreement with the EU countries to facilitate and develop trade options (mainly Norwegian, even Turkish or at least Swiss option). Other alternative option could be the process which will result forced trade agreements with non-EU countries and increase the bilateral trade flows.

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